consolidated statements of operations and retained earnings (deficit)

for the years ended December 31, 2003 and 2002
(expressed in U.S. dollars, unless otherwise stated)

	2003 $	2002 $
Gold sales	14,815,367	7,342,566
Operating expenses	(14,721,121)	(6,588,092)
Amortization of property, plant and equipment *(note 8)*	(3,497,186)	(1,408,461)
Reclamation and closure costs	(3,532)	(13,622)
	(3,406,472)	(667,609)
Interest expense	(1,877,007)	(735,677)
Other income (expense) *(note 17)*	(3,328,038)	279,446
Non-hedge derivative loss *(note 16)*	(5,582,745)	(1,463,071)
Loss before non-controlling interest and discontinued operations	(14,194,262)	(2,586,911)
Non-controlling interest *(note 13)*	(122,805)	–
Loss before discontinued operations	(14,317,067)	(2,586,911)
Income (loss) from discontinued operations *(note 4)*	683,415	(573,831)
Loss for the year	(13,633,652)	(3,160,742)
Retained earnings (deficit) – Beginning of year	(2,540,271)	620,471
Reduction of share capital *(note 15)*	5,750,903	–
Deficit – End of year	(10,423,020)	(2,540,271)
Basic and diluted loss per share before discontinued operations	(1.38)	(0.39)
Basic and diluted loss per share	(1.32)	(0.48)
Weighted average number of common shares outstanding *(note 15(f))*	10,337,606	6,620,000

The accompanying notes form an integral part of these consolidated financial statements.

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consolidated statements of cash flows

for the years ended December 31, 2003 and 2002
(expressed in U.S. dollars, unless otherwise stated)

	2003 $	2002 $
Cash provided by (used in)		
Operating activities		
Loss before non-controlling interest and discontinued operations	(14,194,262)	(2,586,911)
Non-cash items		
Amortization of property, plant and equipment	3,497,186	1,408,461
Non-hedge derivative loss	5,582,745	1,463,071
Reclamation and closure costs	3,532	13,622
Broker warrants and stock based compensation expense	979,239	-
	(4,131,560)	298,243
Net change in non-cash working capital balances related to operations *(note 20(a))*	(878,934)	46,601
	(5,010,494)	344,844
Investing activities		
Purchase of property, plant and equipment	(1,786,864)	(723,180)
Net cash provided by (used in) discontinued operations		(634,003)
Investments in mineral properties	(58,856)	(75,671)
Net cash received on acquisition		248,209
Acquisition of property interests *(note 5(a))*	(180,000)	-
	(2,025,720)	(1,184,645)
Financing activities		
Increase (decrease) in due to related parties	1,877,537	(447,462)
Increase (decrease) in debt	(1,896,404)	1,378,995
Private placements *(note 15(c))*	7,443,765	-
	7,424,898	931,533
Increase in cash and cash equivalents during the year	388,684	91,732
Cash and cash equivalents - Beginning of year	115,595	28,363
Cash and cash equivalents - End of year	504,279	115,595

The accompanying notes form an integral part of these consolidated financial statements.

for the years ended December 31, 2003 and 2002
(expressed in U.S. dollars, unless otherwise stated)

1 NATURE OF BUSINESS

RNC Gold Inc. ("RNC" or the "Company") is engaged in the exploration, development and operation of gold mines. RNC's primary focus is on open pit, heap leach gold mines operating in the Caribbean Basin.

The consolidated financial statements of RNC Gold Inc. are prepared in accordance with Canadian generally accepted accounting principles and on a going concern basis, which assumes that the Company will be able to discharge its liabilities and realize the carrying value of its assets in the normal course of business. For the year ended December 31, 2003, the Company has recorded a loss of $13,633,652 and as at December 31, 2003 has a working capital deficiency of $14,627,431. In fiscal 2003, the Company's primary producing mine, La Libertad, operated significantly below capacity due to financing shortfalls throughout the year. Part of the proceeds of the July 25, 2003 and September 26, 2003 private placements were allocated to La Libertad and full production was attained in December 2003. Management believes that the working capital deficiency at December 31, 2003 will be remedied through the realization of positive operating cash flows in fiscal 2004 and through the non-cash settlement of significant current and long term liabilities. In addition, subsequent to year end the Company raised CAN $20.24 million through the completion of a private placement financing (note (22(g)). This is expected to remedy the working capital deficiency that existed at year end.

2 BASIS OF PRESENTATION AND CONSOLIDATION

The functional and reporting currency of the Company and all its subsidiaries is the U.S. dollar. The consolidated financial statements of the Company are prepared in U.S. dollars.

Effective July 25, 2003, the private company, RNC Resources Limited ("RNC Resources"), acquired the outstanding shares of Tango Mineral Resources Inc. ("Tango"), a Canadian public company listed on the Toronto Stock Exchange. The transaction was accounted for using the reverse take-over method of purchase accounting. RNC Resources was deemed to be the acquirer and was assumed to be purchasing the assets and liabilities of Tango, since the original shareholders of RNC Resources became owners of more than 50% of the shares of Tango following the transaction. In connection with the transaction, Tango's name was changed to RNC Gold Inc.

In addition, during the year, RNC increased its ownership in Desarrollo Minero de Nicaragua, S.A. ("Desminic"), which owns the La Libertad mine, from 50% to 100%, and its interest in Hemco de Nicaragua, S.A. ("Hemco"), which owns the Hemco concessions, from 50% to 80%. As a result of the acquisitions, RNC changed from proportionate consolidation to full consolidation accounting, whereby the full results of Desminic and Hemco are included in the accounts for the period from the date of additional acquisitions to the end of the year. The consolidated financial statements include the assets and liabilities, revenues and expenses of the following subsidiaries, all of which are wholly owned with the exception of Hemco, which was 80% owned by RNC at December 31, 2003:

RNC Gold Ontario Inc.
RNC Resources Limited
Desminic
Central American Mine Holdings Limited
Beneficio Minero Los Angles, S.A.
Hemco
RNC (Hemco) Limited
Desarollo Aurifero Minero, S.A.
Perforaciones de Nicaragua, S.A.
Minera Tango S.A. de C.V

Additionally, RNC owns an option to earn a 50% interest in the Cerro Quema gold project in Panama (note 22 (c)) and an option to purchase a 25% interest in the San Andres mine in Honduras.

for the years ended December 31, 2003 and 2002
(expressed in U.S. dollars, unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates, risks and uncertainties

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly. The most significant estimates and assumptions relate to the carrying values of property, plant and equipment, inventory and the cost of satisfying reclamation obligations.

Realization of the Company's assets is subject to risks and uncertainties including reserves estimations, future gold prices, changes in government legislation, and various operational factors.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid short-term deposits, government guaranteed money market investments and corporate paper with original maturity dates of less than three months.

Inventory

Finished products and in-process inventory are valued at the lower of average cost and net realizable value. Expenses capitalized as ore in stockpiles and ore being heap-leached include mining and crushing expenses. Materials and supplies are valued at the lower of average cost and replacement cost.

Resource assets

Mineral property acquisition and mine development costs, including costs incurred during production to expand ore reserves, are deferred and depleted over their estimated economic lives on the following basis:

- Where the operating plan calls for production from well-defined ore reserves, the unit-of-production method is applied over the recoverable proven and probable reserves.
- Reviews are undertaken annually to evaluate the carrying values of operating mines and development properties. If it is determined that the net recoverable amount is less than the carrying value and the impairment in value is likely to be permanent, a write-down of the net recoverable amount is recorded through a charge to income.

Property, plant and equipment

Property, plant and equipment are recorded at cost and amortized on a straight-line or unit-of-production basis over the shorter of the estimated useful life or the life of the mine. Reviews of the carrying amounts of property, plant and equipment are performed when events or changes in circumstances suggest that the carrying amounts may not be recoverable. If it is determined that impairment exists, a write-down is recorded through a charge to income. Plant and equipment, pads and ponds and buildings and installations are amortized using the straight-line method based on the shorter of the estimated useful life and the life of the mine (Desminic - 5 years; Hemco - 8 years). Light vehicles, furniture and office equipment are amortized on a straight-line basis over their estimated useful lives (Desminic - 5 years; Hemco - 5 years).

Revenue recognition

Revenue is recognized when title and risk of ownership of the dore have passed and collection is reasonably assured. Revenue from the sale of metals may be subject to adjustment upon final settlement of estimated metal prices, weights and assays. Adjustments to revenue are recorded in the period of final settlement of prices, weights and assays; such adjustments have not historically been material.

Exploration and development costs

Exploration and related costs are expensed in the period incurred. Significant mineral property acquisition costs and development costs relating to specific mineral properties for which economically recoverable reserves are believed to exist are deferred until the project to which they relate is sold, abandoned or placed into production.

Reclamation and closure costs

The Company's mining and exploration activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Estimated reclamation and closure costs, including site rehabilitation and long-term treatment and monitoring costs, are accrued on a unit-of-production basis, using estimates of total costs, net of recoveries. Such estimates are, however, subject to change based on negotiations with regulatory authorities, and changes in laws and regulations.

Stock option plan

The Company has a stock option plan, which is described in note 15(e). The Company accounts for stock options using the fair value method. Under this method, compensation expense is measured at the fair value on the date of grant using the Black-Scholes valuation model, and is charged to operations, with an offsetting credit to contributed surplus, on a straight line basis over the vesting period of the options granted. If and when the stock options are ultimately exercised, the consideration paid on exercise is transferred to share capital.

Loss per share

Loss per share is computed based on the weighted average number of common shares outstanding during the year. The diluted loss per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of the dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the period (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period. Diluted loss per share has not been disclosed since the exercise of options and warrants would be anti-dilutive.

Translation of foreign currencies

Foreign operations are translated using the temporal method. Under this method, monetary items are translated at the exchange rate prevailing at the balance sheet date, non-monetary items are translated at historical exchange rates and revenues and expenses are translated at the average rate during the period.

Gains or losses on foreign currency transactions are recognized in income.

Financial instruments

The carrying values of cash and cash equivalents, accounts receivable, other assets of discontinued operations, accounts payable and accrued liabilities approximate their fair values. The carrying value of long term debt represents the face value of the related liabilities. The Company's long-term debt is subject to interest rate risk.

Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation.

4 DISCONTINUED OPERATIONS

During January 2002, the management of RNC decided to reorganize the assets and liabilities of RNC to more effectively manage its various operations. The determination was made that the mining operations controlled by RNC would be continued in RNC while the assets and liabilities related to the management and leasing activities would be transferred to RNC (Management) Limited ("RNC Management"), a related party. The assets and liabilities of the Honduran activities would be transferred to RNC (Honduras) Limited, a related party.

These transactions became effective as of July 25, 2003 and the assets and liabilities, revenues and expenses of the discontinued operations ceased to consolidated with those of RNC.

The results of operations of the discontinued entities were measured as at June 30, 2003, as the transactions that occurred between this interim date and the date of disposal were not significant.

(expressed in U.S. dollars, unless otherwise stated)

The segmented information related to the discontinued operations transferred to the following entities is as follows at June 30, 2003:

	RNC (Management) Limited $	RNC (Honduras) Limited $
Cash		
Accounts receivable	273,189	107,195
Current assets	273,189	107,195
Notes receivable - related company		
Accounts receivable - related company	1,701,158	
Property, plant and equipment, net	369,599	
	2,070,757	1,500,000
Total assets	2,343,946	1,607,195
Current liabilities	1,130,188	
Long-term liabilities	767,810	2,178,994
Total liabilities	1,897,998	2,178,994
Net assets (liabilities) as at June 30, 2003	445,948	(571,799)
Revenues	1,995,022	
Operating costs	(1,177,152)	
Amortization	(94,357)	
Interest and bank charges	(40,098)	
Net income	683,415	

The segmented information related to the discontinued operations transferred to the following entities is as follows at December 31, 2002:

	RNC (Management) Limited $	RNC (Honduras) Limited $
Cash	225,225	–
Accounts receivable	63,140	107,195
Current assets	288,365	107,195
Notes receivable - related company	269,186	–
Accounts receivable – related company	761,628	–
Property, plant and equipment, net	419,842	–
	1,450,656	1,500,000
Total assets	1,739,021	1,607,195
Current liabilities	667,272	–
Long-term liabilities	873,983	2,178,994
Total liabilities	1,541,255	2,178,994
Net assets (liabilities)	197,766	(571,799)
Revenues	2,622,099	–
Operating costs	(2,717,622)	–
Amortization	(93,718)	–
Interest and bank charges	(93,716)	
Other expense	(290,874)	–
Loss	(573,831)	–

5 BUSINESS COMBINATIONS

| a | Desminic and Hemco

On February 27, 2002, RNC acquired 50% of Desminic and 50% of Hemco for net consideration of $nil. At the date of acquisition, RNC adjusted the assets and liabilities of Desminic and Hemco to reflect their fair values.

Effective July 25, 2003, pursuant to a share and debt purchase agreement dated July 25, 2003 between RNC and Auric Resources Corp. ("Auric"), RNC increased its indirect interest in Desminic to 90% and in Hemco to 80%. RNC also purchased an additional 40% of the indebtedness of Desminic owed to Auric (note 12(a)). The aggregate purchase price was $5,500,000, plus the issuance by RNC to Auric of 180,000 units, for total consideration of $5,759,200. This price was satisfied on July 25, 2003 by the payment of $180,000 in cash, the issuance by RNC of 1,949,485 units (which includes the initial 180,000 units) and the agreement by RNC to pay $2,750,000 on or before June 30, 2004. Each unit was priced at CAN$2.00 and consisted of one common share and one-half of one common share purchase warrant of RNC. One full warrant is exercisable for one common share of RNC at CAN$2.25 until December 4, 2004 and CAN$2.50 thereafter until expiry on December 4, 2005 (note 15(c) – Financing and asset purchases).

As security for the balance of the purchase price, RNC pledged to Auric (a) 20% of its shares of Desminic, and (b) the Hemco mining concessions. Any amounts received by Auric with respect to such indebtedness shall be applied against the remaining purchase price owed by RNC until the purchase price is paid, at which time the debt described above will be re-assigned to RNC. Additionally, should Auric, on the sale of its common shares of RNC, receive a net price in excess of CAN$2.00 per share, the difference will be used to reduce the June 30, 2004 obligation (note 22 (a)).

Effective September 17, 2003, 700,000 units were issued by RNC to acquire the remaining 10% of Desminic. Each unit was priced at CAN$2.00 per unit and consisted of one common share and one-half of one common share purchase warrant of RNC. One full warrant is exercisable for one common share of RNC at CAN$2.25 until December 4, 2004 and CAN$2.50 thereafter until expiry on December 4, 2005 (note 15(c) – Additional Desminic purchase).

A summary of the consideration paid to acquire the ownership interests in Hemco and Desminic at July 25, 2003 and September 17, 2003 is presented below:

July 25, 2003	**$**
Common shares (180,000 units issued)	259,200
Additional common shares issued (1,769,485 units issued)	2,570,000
Cash paid	180,000
Note payable – on or before June 30, 2004	2,750,000
	5,759,200
September 17, 2003	**$**
Common shares issued (700,000 units issued)	1,008,000
Total consideration paid	6,767,200
The total consideration was allocated to Hemco and Desminic as follows:	
	$
Hemco	900,000
Desminic	5,867,200
Total purchase price allocated	6,767,200

Below summarizes the accounting impact of the asset acquisitions during the year:

i) Desminic

The effect of the acquisition of the additional 40% interest and 10% interest in Desminic was treated as a single purchase as management believes that the fair values of assets and liabilities as reported at June 30, 2003 appropriately reflect fair values both as at July 25, 2003 (date of 40% acquisition) and as at September 17, 2003 (date of 10% acquisition).

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(expressed in U.S. dollars, unless otherwise stated)

Prior to July 25, 2003, RNC used proportionate consolidation to account for its 50% joint venture interest in Desminic. Subsequent to the July 25, 2003 acquisitions, RNC has applied full consolidation accounting, whereby 100% of the Desminic financial results are included in the results of RNC. The net asset values of Desminic at the dates of acquisition were in a deficit position. The entire excess purchase price was allocated to property, plant and equipment. The purchase price was allocated as follows at July 25, 2003:

	$
Purchase price allocated to Desminic acquisitions	5,867,200
Fair value of Desminic shareholder debt (note 12(a))	(1,093,414)
Fair value of Desminic shareholder interest (note 12(a))	(200,000)
Subtotal	4,573,786
Deficit at date of purchase	2,275,294
Purchase price allocated to property, plant and equipment	6,849,080

The following table summarizes the fair value of the assets and liabilities acquired:

July 25, 2003	$
Current assets	942,657
Property, plant and equipment	11,627,095
Mineral properties	–
Total assets	12,569,752
Current liabilities	5,032,447
Interest payable	(699,108)
Desminic shareholder debt (note 12(a))	(1,112,833)
Other liabilities	3,482,046
Total liabilities	6,702,552
Net assets acquired	5,867,200
Total consideration allocated to Desminic acquisitions	5,867,200

ii) Hemco

The effect of the acquisition of the additional 30% interest in Hemco resulted in a change from proportionate consolidation to account for this joint venture to full consolidation. The fair values of the assets and liabilities were reviewed to determine whether they reflected fair values. No adjustments were determined to be necessary. No non-controlling interest exists at the date of acquisition, as the net asset value at that date was in a deficit position. The purchase price was allocated as follows at July 25, 2003:

	$
Purchase price allocated to Hemco	900,000
Excess of fair value monetary liabilities over fair value of monetary assets	657,971
Purchase price allocated to property, plant and equipment	1,557,971

The following table summarizes the fair value of assets and liabilities acquired:

July 25, 2003	$
Current assets	1,430,989
Property, plant and equipment	1,877,708
Mineral properties	700,000
Total assets	4,008,697
Current liabilities	1,439,869
Other liabilities	1,668,828
Total liabilities	3,108,697
Net assets acquired	900,000
Total consideration allocated to Hemco acquisition	900,000

iii) Tango Mineral Resources Inc.

On May 12, 2003, RNC entered into a letter of intent to acquire Tango Mineral Resources Inc. ("Tango"). The acquisition was conditional on RNC's completing a minimum financing of CAN$7.5M and a corporate reorganization (note 4). These conditions were satisfied on July 25, 2003. The shareholders of Tango approved a 25 to 1 consolidation of Tango shares. Each Tango share was exchanged for one unit of RNC, with each unit consisting of a common share and one-half of a common share purchase warrant. Effective December 4, 2003, the date of the acquisition, the shareholders of Tango received 1,208,897 common shares and 604,449 warrants of RNC (7% of total outstanding), while the RNC shareholders held 15,897,500 shares and 8,776,174 warrants (93% of total). One full warrant is exercisable for one common share of RNC at CAN$2.25 until December 4, 2004 and CAN$2.50 thereafter until expiry on December 4, 2005.

For accounting purposes, the business combination of RNC with Tango Mineral Resources Inc. has been accounted for using the reverse take-over method of purchase accounting. RNC is deemed to be the acquirer and is assumed to be purchasing the assets and liabilities of Tango, since the original shareholders of RNC have become owners of more than 50% of the voting shares of Tango. The results of the operations of Tango are included from the date of the transaction.

The 1,208,897 units issued to Tango shareholders at the date of acquisition were valued at CAN$2.00. At an exchange rate of CAN$1.00 = US$0.72, the total consideration for the acquisition of Tango was $1,740,811.

The following table summarizes the fair value of assets and liabilities acquired:

July 25, 2003	$
Current assets	93,103
Property, plant and equipment	2,298
Mineral properties	1,762,458
Total assets	1,857,859
Current liabilities	117,048
Net assets acquired	1,740,811
Total consideration allocated to Tango acquisition	1,740,811

6 ACCOUNTS RECEIVABLE

	December 31, 2003 $	December 31, 2002 $
Trade receivables	1,181,277	264,426
Value-added tax	469,306	169,699
	1,650,583	434,125

for the years ended December 31, 2003 and 2002
(expressed in U.S. dollars, unless otherwise stated)

7 INVENTORY

	December 31, 2003 $	December 31, 2002 $
Parts and supplies	2,512,534	1,623,414
Gold in process	304,914	–
	2,817,448	1,623,414

8 PROPERTY, PLANT AND EQUIPMENT

	December 31, 2003		
	Cost $	Accumulated amortization $	Net $
Plant and equipment	21,279,883	4,767,866	16,512,017
Pads and ponds	5,929,311	2,174,081	3,755,230
Buildings and installations	643,962	231,662	412,300
Light vehicles	213,938	14,488	199,450
Furniture and office equipment	30,603	8,489	22,114
	28,097,697	7,196,586	20,901,111
	December 31, 2002		
	Cost $	Accumulated amortization $	Net $
Plant and equipment	5,357,185	859,084	4,498,101
Pads and ponds	2,964,655	494,109	2,470,546
Buildings and installations	315,673	52,612	263,061
Light vehicles	5,464	911	4,553
Furniture and office equipment	10,469	1,745	8,724
	8,653,446	1,408,461	7,244,985

9 MINERAL PROPERTIES

	December 31, 2003 $	December 31, 2002 $
Hemco concessions (Nicaragua) *(note 9(a))*	1,400,000	700,000
Picachos property (Mexico) *(note 9(b))*	1,762,458	–
Cerro Quema (Panama) *(note 9(c))*	296,555	75,671
	3,459,013	775,671

| *a* |

The Hemco concession and producing Bonanza mine are located in northeast Nicaragua. Hemco controls 204,995 hectares for which management is considering various exploration opportunities. On the acquisition of RNC's 80% interest in Hemco, a total of $1,400,000 was allocated to exploration concessions.

Desminic holds exploitation concessions covering 10,950 hectares located near the town of La Libertad in Nicaragua. These concessions were granted in August 1994 for a period of 40 years. In addition, Desminic holds three exploration concessions covering 6,700 hectares. The exploration concessions were granted in July 2002 for a period of 25 years.

No value has been assigned to the Desminic exploitation and exploration concessions.